

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Capital Area District Library	County Ingham
Audit Date December 31, 2005	Opinion Date February 10, 2006	Date Accountant Report Submitted To State: March 16, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State MI	ZIP 48823
Accountant Signature 			

Capital Area District Library

**Financial Report
with Supplemental Information
December 31, 2005**

Capital Area District Library

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Independent Auditor's Report

To the Capital Area District Library Board
Lansing, Michigan

We have audited the accompanying basic financial statements of Capital Area District Library as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Capital Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Capital Area District Library at December 31, 2005 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

February 10, 2006

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Capital Area District Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The government-wide financial statement column provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Capital Area District Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table below shows key financial information in a condensed format:

	2005	2004
Current assets	\$ 12,165,739	\$ 11,432,766
Capital assets	<u>6,331,013</u>	<u>6,381,916</u>
Total assets	18,496,752	17,814,682
Long-term liabilities	190,755	130,562
Other liabilities	<u>9,240,651</u>	<u>9,069,684</u>
Total liabilities	<u>9,431,406</u>	<u>9,200,246</u>
Net assets:		
Invested in capital assets	6,331,013	6,381,916
Restricted for donor-restricted purpose	93,000	112,151
Unrestricted	<u>2,641,333</u>	<u>2,120,369</u>
Total net assets	<u>\$ 9,065,346</u>	<u>\$ 8,614,436</u>
Revenue:		
Property taxes	\$ 8,705,782	\$ 8,183,862
Other	<u>1,617,547</u>	<u>1,615,348</u>
Total revenue	10,323,329	9,799,210
Expenses - Library services	<u>9,872,419</u>	<u>9,023,022</u>
Change in net assets	<u>\$ 450,910</u>	<u>\$ 776,188</u>

Capital Area District Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- For the third year, the Library is reporting all financial statements that meet the requirements of GASB 34. These statements will include a comparative analysis of government-wide data for years 2004 and 2005.
- The Library's net assets were \$9,065,346 on a full accrual basis. This represents an increase of \$450,910 over the previous year. This increase was primarily the result of an increase in the Library's General Fund balance. This increase was the result of higher than anticipated tax revenue, increased interest income due to higher rates of return, and lower than budgeted spending on salaries and benefits. A major renovation project at one of the branches was also delayed until 2006, which kept nearly \$200,000 allocated to this project in the General Fund at year end.
- The Library's primary source of revenue is from property taxes. For 2005, total tax collection was \$8,705,782. This represents approximately 84.3 percent of total revenue. It also represents an increase over the previous year's tax collection of \$521,920. This increase was primarily due to a 5.67 percent increase in taxable value on the properties within the county providing revenue to the library system.
- Salaries and fringe benefits are the largest overall expense of the Library. For 2005, this expense was \$6,338,326, representing 64.9 percent of the Library's total expenses. The addition of four full-time employees and five part-time employees to meet the needs of a growing library system, plus an average 4 percent increase in salaries, contributed to an overall increase of \$549,151 over the previous year.
- Library materials at \$1,408,138 are the second largest overall expense of the Library, representing 14.4 percent of the Library's total expenses. This is a decrease of \$73,501 from the previous year.
- Total expenses for the entire year under the modified accrual method of accounting were \$9,761,323.

Capital Area District Library

Management's Discussion and Analysis (Continued)

The Library's Fund

- Our analysis of the Library's major fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the most significant fund - not the Library as a whole.
- The fund balance of the General Fund increased by \$562,006 for the year. This increase represents the amount of revenue greater than expense for the year. It was primarily caused by an increase in tax collection revenue, higher interest income from increasing rates, and the delay of a major renovation project until 2006.
- The Library board has the ability to create separate funds to help manage money for specific purposes. The Library maintains several of these to fund projects such as system expansion, technology upgrades, and capital improvements.

Library Budgetary Highlights

Over the course of the year, the Library board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in tax revenue, penal fines revenue, interest income, salaries expense, and technology and capital related projects expense.

- The tax revenue budget was increased \$100,000 to reflect an increase in actual tax revenue received from Ingham County. This increase was due to revenues collected from the Delhi Township DDA and higher delinquent personal property tax collection.
- The Ingham County penal fines budget was reduced by \$36,170 to reflect a decrease in actual revenue received.
- The interest income budget was increased by \$75,000 to reflect higher returns generated from the Library's investments.
- The salaries expense budget was increased by \$78,000 to reflect the addition of a new position, Library Development Director.

Several capital project budgets were changed during the year:

- The technology budget was reduced by \$290,000 to reflect the delay of two projects until 2006. These projects are the staff computer upgrade (\$240,000) and the print management project (\$50,000).
- The automation fund balance was increased \$290,000 to reflect the above change.

Capital Area District Library

Management's Discussion and Analysis (Continued)

- The staff furniture and shelving expense budget was increased by \$38,000 to a total of \$90,000 to provide display, ergonomic, and computer furniture to the library branches.
- A budget for \$89,700 was added in August for the anticipated Holt Branch renovation project in the fourth quarter of 2005.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$6.33 million invested in furniture, equipment, and books and materials. In 2005, the Library added approximately \$1.18 million in new collection items consisting mainly of books, video materials, audio books, and music CDs.

The Library carries no long-term debt other than compensated absences.

Capital Area District Library

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2005

	General Fund - Modified Accrual Basis	Adjustments (Note 9)	Statement of Net Assets - Full Accrual Basis
Assets			
Cash (Note 2)	\$ 1,878,344	\$ -	\$ 1,878,344
Investments (Note 2)	1,198,056	-	1,198,056
Taxes receivable	8,843,892	-	8,843,892
Due from other governmental units	20,540	-	20,540
Interest receivable	19,665	-	19,665
Prepaid expenses	205,242	-	205,242
Capital assets (Note 3)	-	6,331,013	6,331,013
Total assets	<u>\$ 12,165,739</u>	<u>6,331,013</u>	<u>18,496,752</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 423,669	-	423,669
Deferred revenue	8,816,982	-	8,816,982
Long-term liabilities - Due in more than one year - Accumulated employee benefits (Note 4)	-	190,755	190,755
Total liabilities	<u>9,240,651</u>	<u>190,755</u>	<u>9,431,406</u>
Fund Balances			
Reserved for:			
Prepaid expenses	205,242	(205,242)	-
Donations	93,000	(93,000)	-
Unreserved:			
Designated for:			
System expansion	345,239	(345,239)	-
Contingency	1,013,960	(1,013,960)	-
Automation	512,000	(512,000)	-
Capital projects	184,717	(184,717)	-
Undesignated	570,930	(570,930)	-
Total fund balance	<u>2,925,088</u>	<u>(2,925,088)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 12,165,739</u>		
Net Assets			
Investment in capital assets		6,331,013	6,331,013
Restricted for donor-restricted purposes		93,000	93,000
Unrestricted		2,641,333	2,641,333
Total net assets		<u>\$ 9,065,346</u>	<u>\$ 9,065,346</u>

Capital Area District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2005

	General Fund - Modified Accrual Basis	Adjustments (Note 9)	Statement of Activities - Full Accrual Basis
Revenue			
Millage revenue	\$ 8,705,782	\$ -	\$ 8,705,782
Penal fines	764,154	-	764,154
State aid	206,610	-	206,610
Rental revenue	144,819	-	144,819
Interest income	165,763	-	165,763
Donation income	48,192	-	48,192
Miscellaneous revenue	288,009	-	288,009
Total revenue	10,323,329	-	10,323,329
Expenditures			
Salaries and benefits	6,338,326	60,193	6,398,519
Materials	1,408,138	(1,177,329)	230,809
Supplies	210,928	-	210,928
Professional services	491,168	-	491,168
Governance	18,137	-	18,137
Transportation/Staff development	60,689	-	60,689
Maintenance and utilities	507,189	-	507,189
Technology	338,208	(116,679)	221,529
Capital outlay - Equipment and furniture	218,172	(218,172)	-
Depreciation	-	1,563,083	1,563,083
Other expenses	170,368	-	170,368
Total expenditures	9,761,323	111,096	9,872,419
Excess of Revenue Over Expenditures/ Change in Net Assets	562,006	(111,096)	450,910
Fund Balance/Net Assets - Beginning of year	2,363,082	6,251,354	8,614,436
Fund Balance/Net Assets - End of year	<u>\$ 2,925,088</u>	<u>\$ 6,140,258</u>	<u>\$ 9,065,346</u>

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Capital Area District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

Effective January 1, 1998, Capital Area District Library commenced official operations pursuant to the March 10, 1997 signed District Library Agreement. The District Library Agreement was originally entered into by the County of Ingham, except for the City of East Lansing and small portions of White Oak and Locke Townships, and the City of Lansing. In February 1999, three additional participating municipalities were recognized by the original participants - Delhi Township, Meridian Township, and the City of Williamston. The Library is funded primarily through property taxes, state aid, penal fines, grants, and donations. The voters of the districts approved a 1.46 mill tax for a three-year period, which began with a tax levy effective December 31, 2003. This millage provides for funding of Library operations through December 31, 2006.

The Library is governed by a seven-member board. The board consists of five members appointed by the County of Ingham and two members appointed by the City of Lansing. The Library is not included as a component unit in any other primary government's financial statements. Based on the significance of any operations or financial relationships with the Library, there are no component units to be included in these financial statements.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library has one fund, the General Fund, which is the Library's primary operating fund.

The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

In addition to presenting information for the General Fund, the statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Financial Statement Amounts

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Receivables and Payables - All trade and property taxes receivable are shown net of an allowance for uncollectible amounts.

Prepaid Expenses - The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

Capital Assets - Generally, capital assets are defined by the Library with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$2,500 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

Furniture and equipment	3-10 years
Library books and materials	7 years

The Library has a collection of art work presented for public exhibition and education that is being preserved for future generations. The proceeds from sales of any pieces of the collection are used to purchase other acquisitions. The collection is not capitalized or depreciated as part of capital assets.

Compensated Absences - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Property Taxes - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing operations. The 2004 taxable value of the district totaled \$6,138,812,181 (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.4534 mills for operating purposes. This resulted in \$8,585,144 recognized as property tax revenue.

Deferred Revenue - Income is recognized as revenue as it is earned. Prepayments are recorded as deferred until the revenue is earned over the year. Property taxes levied December 1 are for the following year's budget as described above. Accordingly, the December 1 tax levy is recorded as deferred revenue at December 31.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by authority as listed above. The Library's deposits and investments policy is in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$1,002,318 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

As of year end, the Library had approximately \$2,088,000 invested in governmental money market mutual funds with a rating of AAA by Moody's. The Library's investment policy does not limit credit risk beyond that imposed by State law.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 3 - Capital Assets

A summary of the changes in capital assets follows:

Capital Assets Being Depreciated	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Furniture and equipment	\$ 2,625,639	\$ 569,903	\$ (300,638)	\$ 2,894,904
Library books and materials	13,315,604	1,177,329	(406,270)	14,086,663
Project in progress	235,052	-	(235,052)	-
Total	16,176,295	1,747,232	(941,960)	16,981,567
Accumulated depreciation:				
Furniture and equipment	1,332,803	340,007	(300,638)	1,372,172
Library books and materials	8,461,576	1,223,076	(406,270)	9,278,382
Subtotal	9,794,379	1,563,083	(706,908)	10,650,554
Net book value	<u>\$ 6,381,916</u>	<u>\$ 184,149</u>	<u>\$ (235,052)</u>	<u>\$ 6,331,013</u>

Capital Area District Library leases a building from the Lansing School District at a nominal amount. Other buildings are provided by the other participating governmental units at no charge to the Library. As a result, the Library does not own land or any other assets that are not being depreciated.

Note 4 - Long-term Debt

A summary of the debt outstanding at the Library is as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Compensated absences	<u>\$ 130,562</u>	<u>\$ 60,193</u>	<u>\$ -</u>	<u>\$ 190,755</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library. The Library estimates that none of the above liability will be paid within the next year.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 5 - Budget Information

The annual budget is prepared by Library management and adopted by the Library board of trustees; subsequent amendments are approved by the board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on a functional basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library board is included in the required supplemental information.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Pension Plan

Plan Description

The Library participates in the Michigan Municipal Employees' Retirement System, an agent, multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by board approval and requires a contribution from the union and nonunion employees of 3.85 percent and 4.88 percent and 8.40 percent of gross wages, respectively.

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 7 - Pension Plan (Continued)

Annual Pension Cost

For the year ended December 31, 2005, the Library's annual pension cost of \$201,907 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial calculation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation assumption of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Trend Information

	Fiscal Year Ended December 31		
	2003	2004	2005
Annual pension cost	\$ 109,670	\$ 162,137	\$ 201,907
Percentage of annual pension cost contributed	100%	100%	100%
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 203,950	\$ 478,109	\$ 980,283
Actuarial accrued liability (AAL) (entry age)	179,193	458,103	976,116
Unfunded (overfunded) AAL (U(O)AAL)	(24,757)	(20,006)	(4,167)
Funded ratio	113.81%	104.37%	100.4%
Covered payroll	1,491,435	1,854,730	2,747,722
U(O)AAL as a percentage of covered payroll	(1.66%)	(1.08%)	(0.15%)

Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 8 - Defined Contribution Pension Plan

The Library provides pension benefits to some full-time employees hired before January 1, 2002 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Library's competitive bargaining units, the Library contributes 7 percent of employees' gross earnings. In accordance with these requirements, the Library contributed \$41,490 during the current year, and employees made no contributions. Total assets held by the plan at year end were \$419,384.

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 2,925,088
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	6,331,013
Compensated absences are included as a liability	<u>(190,755)</u>

Net Assets of General Fund - Full accrual basis	<u><u>\$ 9,065,346</u></u>
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Capital Area District Library

Notes to Financial Statements December 31, 2005

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis \$ 562,006

Amounts reported in the statement of activities are different
because:

Capital outlays are reported as expenditures in the
statement of revenue, expenditures, and changes in fund
balance; in the statement of activities, these costs are
allocated over their estimated useful lives as depreciation:

Capital outlay	334,851
Library books and materials	1,177,329
Depreciation	(1,563,083)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities but not in the fund statements	<u>(60,193)</u>
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Change in Net Assets of General Fund - Full accrual basis \$ 450,910

Required Supplemental Information

Capital Area District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Originally Adopted Budget	Final Amended Budget	December 31, 2005 Balance	Variance Favorable (Unfavorable)	December 31, 2004 Balance
Revenue					
Millage revenue	\$ 8,547,980	\$ 8,647,980	\$ 8,705,782	\$ 57,802	\$ 8,183,862
Penal fines	800,310	764,140	764,154	14	777,043
State aid	207,000	207,000	206,610	(390)	207,318
Rental revenue	127,380	140,000	144,819	4,819	149,634
Interest income	80,000	155,000	165,763	10,763	64,232
Donation income	60,000	60,000	48,192	(11,808)	112,633
Miscellaneous revenue	317,350	299,950	288,009	(11,941)	304,488
Total revenue	10,140,020	10,274,070	10,323,329	49,259	9,799,210
Expenditures					
Salaries and benefits	6,467,600	6,545,600	6,338,326	207,274	5,789,175
Materials	1,518,060	1,528,060	1,408,138	119,922	1,481,639
Supplies	202,700	218,200	210,928	7,272	191,679
Professional services	542,250	538,250	491,168	47,082	469,441
Governance	23,700	23,700	18,137	5,563	21,556
Transportation/Staff development	65,190	69,190	60,689	8,501	64,872
Maintenance and utilities	495,780	526,780	507,189	19,591	481,714
Technology	712,400	481,350	338,208	143,142	480,172
Capital outlay - Equipment and furniture	280,300	374,700	218,172	156,528	884,386
Other expenses	156,040	171,040	170,368	672	251,086
Total expenditures	10,464,020	10,476,870	9,761,323	715,547	10,115,720
Revenue Over (Under) Expenditures	(324,000)	(202,800)	562,006	764,806	(316,510)
Fund Balance - Beginning of year	2,363,082	2,363,082	2,363,082	-	2,679,592
Fund Balance - End of year	<u>\$ 2,039,082</u>	<u>\$ 2,160,282</u>	<u>\$ 2,925,088</u>	<u>\$ 764,806</u>	<u>\$ 2,363,082</u>

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To the Board Members
Capital Area District Library

We recently completed our audit of the December 31, 2005 financial statements of Capital Area District Library. In addition to our report on the financial statements, we would like to present the following matters as potential opportunities for improvement to the internal controls and efficiency of the Library.

Cash Receipts

During our testing of cash receipts in the main library, we noted that one of the samples we selected was not deposited until 25 days after receipt. It is our understanding that deposits should be made at least twice a month according to the Library's policy. We recommend frequency of deposits should be monitored by the Library management.

Payroll Records

We noted there were two employees' personnel files (paper files) that were not updated with new pay rates. We were able to trace the pay rate information to the on-line system. We recommend establishing a policy to ensure consistency in documentation of personnel payroll information.

Donations

As more donations are received by the Library, it is important to distinguish between restricted versus unrestricted donations. We recommend the Library report all donations received with a donor restriction separately from general unrestricted donations which can be spent at the Library's discretion. This will ensure the donor's wish is being met before funds are spent.

We are grateful for the opportunity to be of service to Capital Area District Library. Should you have any questions regarding the implementations of these comments, please do not hesitate to call.

Plante & Moran, PLLC

February 10, 2006

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